

BancOhio Corporation



1957

January 31, 1958

Annual Report to the Shareholders:

The consolidated net income of the Corporation and the 21 affiliated banks in 1957 amounted to \$3,945,604 after provision for taxes, reserves for loans and securities and exclusive of the net income applicable to minority stockholders' equities in affiliated banks. On the basis of the Corporation's shares outstanding Dec. 31, 1957 the net income amounts to \$4.54 per share compared to \$4.07 in 1956. Cash dividends totaling \$1.70 per share and a 4% stock dividend were declared in 1957 — cash dividends totaling \$1.45 per share and a 10% stock dividend were declared in 1956.

In order to provide additional reserves for bond accounts, it was deemed advisable to appropriate \$862,704 from the banks' 1957 gross income for that purpose. The net result of profits and losses from bond sales after adjustment for income taxes was a gain of \$364,766 which was credited to bond valuation reserves — this gain plus \$862,704 appropriated from earnings provided total net additions of \$1,227,470 to such reserves. The amortized cost of the U. S. Treasury securities at the year end was \$2,681,605 less than the redemption value. The average maturity was 4 years 2 months.

The 4% nontaxable stock dividend represented a market value equivalent to \$1.72 per share on the stock previously outstanding. This evidences a capitalization of a portion of undistributed 1957 net profits. The growing business of your banks produced net earnings equal to 10.3% on the book value of your stock and in this respect presents an inducement for the reinvestment of a substantial portion of net profits. Furthermore, your banks must continue to increase capital expenditures for modern and expanded facilities in order to maintain a proper status in the economy of their communities.

The capital and surplus of BancOhio Corporation at the close of 1957 totaled \$38,435,339. On the basis of total shares outstanding Dec. 31, 1957, the book value per share was \$44.24 compared to \$41.29 at the beginning of the year.

Volume of activity in all departments of the affiliated banks was maintained at a high level throughout the year. The record gross income reflected strong demand for credit and higher interest rates prevailing on loans and securities during the major part of 1957. Income from loans amounted to \$10,023,832, up 11.4% from 1956 — income from securities was \$7,769,447, an increase of 8.4% — service charges, safe deposit and other rents and trust services produced revenues totaling \$2,683,035, a gain of 23.3% over 1956.

Particularly notable is the increased business of the Trust Department of the Ohio National Bank which recorded a 33.6% gain in net operating revenue. The continuity of supervision afforded by a responsible and highly trained technical staff, furnishing a wide range of specialized services to individuals and corporations at a reasonable cost, is clearly meeting the needs of many additional bank customers. BancOhio shareholders are again urged to investigate the advantages to be derived from trust services which provide important safeguards and tax-savings potentialities.

Total operating expenses of the banks necessarily increased with growth in volume of all banking activities and with the advances in general price levels. The greatest ratio of increase was in interest paid on deposits — such payments totaled \$2,140,353, up 51.3% from 1956. Prevailing money rates and intense competition necessitated increases in interest rates offered depositors. Total compensation paid to staff was \$5,492,566, an increase of 7.4%, (staff at the year end consisted of 1,381 persons, 4.5% greater than a year ago). Taxes and assessments other than income taxes were \$1,228,377, an increase of 17.5% and other operating expenses including depreciation rose 7.4% to a total of \$3,425,376. Federal income taxes of \$3,504,500 were up 18.3% and equaled \$4.03 per capital share.

Full annual amortization of existing facilities is reflected by the depreciation charges totaling \$502,099, however, depreciation allowances are based on original costs and present replacement expenditures are at much higher levels. The maximum charges permitted for income tax computations are unrealistic on the basis of present prices and the reserves must be supplemented by a further retention of net profits.

Summarizing, gross expenses equaled 60.1% of gross income against an operating ratio of 58.7% for 1956. Economic factors beyond the control of management necessitated the increase in deposit interest — other expenses are carefully budgeted and subjected to precise accounting procedures and auditing.

The foregoing income and expense data is directly related to the volume of activity and the total resources of the banks. These resources necessarily vary from day to day in reflection of the bank customers changing needs for cash and credit. However, the average resources of your banks, based on monthly compilations, were approximately \$20,700,000 higher in 1957 than in 1956, and this, of course, was a material factor in the production of increased earnings.

Additional banking facilities were made available in the Columbus area by the establishment of an Ohio National Bank office in the Great Southern Shopping Center, by the construction of a branch office of the Citizens National Bank of Zanesville in South Zanesville and construction of the Church Street Office of The First National Bank of Newark. Additionally, substantial remodeling and modernization of the Park Place Office of the Newark bank permitted closing an adjacent office thereby consolidating for an improved service facility in that area. These additions plus acquisitions of modern equipment by other affiliated banks required an outlay of \$606,300.

For the past few months the apparent leveling off of demand for consumer and producer goods has been recognized by a change in the policies of federal monetary authorities who had prudently and courageously applied credit restrictions designed to combat inflationary trends in many sectors of the national economy. The cumulative increase in production facilities since the end of World War II had generally restored the balance of supply and demand — present indications point toward a decrease in the rate of capital expenditures in the near future and a corresponding increase in the ratio of personal and corporate savings available for needed capital outlay. In these circumstances, the authorities took steps to reduce the cost of money as a stimulus to revival of projects deferred due to high interest cost.

As a consequence of these developments and specific action of the Federal Reserve Banks in November reducing the rediscount rate on loans, cost of money in the capital markets has substantially declined and the market price of bonds has increased. The rate of income to be received by your banks in 1958 will be responsive to broad money markets influences affecting interest rates on loans and securities — present indications point toward lower yields than the 1957 averages. However, as an offset to the indicated reduction in the future rate of gross earnings, decreased credit demand and increased bond values may diminish the necessity for additions to loan and bond reserves.

The preceding data concerning affiliated banks constitutes a summary of the end product of the application of energy and talents of many persons whose special individual qualifications are coordinated to assure dependable high quality and well rounded banking services to the public. BancOhio Corporation and the affiliated banks are enabled to utilize the pooled counsel of 190 directors intimately associated with varied business activities in twenty-one communities. Among the 244 bank officers are experienced specialists in each technical segment of finance. Constant attention is given to instruction and education so that the younger personnel may be further qualified beyond the training derived from on-the-immediate-job experience. Excellent educational courses of instruction in all phases of banking and finance are available through classes conducted by the American Institute of Banking. For the last five years, our participating employees have exceeded two hundred; one hundred and fifteen certificates have been awarded for extensive curriculum completions. In addition, eighteen of our young men have attended graduate school courses, highly regarded nationally, conducted by Rutgers and Wisconsin Universities. These measures fostered by your Corporation are designed to provide a constant supply of administrators for the growing business of the banks.

A necessary part of an effective personnel program is the continued modernization of employee benefit provisions. The retirement plan, adopted originally in 1950, has been brought up to date in 1957 by committing the reserves to a trustee funded plan with an increase in the ceiling of benefits for retired persons. This action also exempts from taxation the income from the invested retirement reserve funds thereby reducing the long term cost to the banks.

It should be reported to you that the Financial Institutions Act, which was passed by the United States Senate, is broadly designed to modernize federal banking law. As now being considered by the House of Representatives the proposed legislation makes no change in the provisions of the Bank Holding Company Act of 1956. The legislation under consideration, therefore, contains no measures to prevent the normal operations of your Corporation or with Federal Reserve Board approval, the addition of new affiliates.

The BancOhio banks are fortunate in the degree of potential interest and active support available from the Corporation's shareholders. At last analysis 3,679 shareholders resided in the 19 Ohio counties served by the affiliated banks — their active interest in promoting the business is earnestly solicited.

Respectfully submitted,

Derrol R. Johnson

President

BANCOHIO CORPORATION

(Parent company only)

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1957

Income:

Dividends from subsidiary banks	\$1,663,035
Interest	82,176
	<u>\$1,745,211</u>

Expenses:

Salaries, sundry taxes and other operating expenses	\$558,543
Less — service charges to subsidiary banks	480,800
	<u>77,743</u>

Federal income taxes — estimated	<u>\$1,667,468</u>
	125,000

Adjustments for prior years — net (including additional provision of \$1,998 for federal income taxes)	<u>\$1,542,468</u>
	7,246

Net income for the year	<u><u>\$1,549,714</u></u>
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STATEMENT OF SURPLUS

YEAR ENDED DECEMBER 31, 1957

Balance at December 31, 1956	\$19,161,002
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Increase in equity in net assets of subsidiary banks represented by:

Undistributed net operating income — after provisions for possible future bad debts and loan losses	\$3,232,072
Net gains on security sales (after taxes)	369,487

	<u>\$3,601,559</u>
Provision for possible future market depreciation in U.S. Treasury securities	1,205,669

	<u>\$2,395,890</u>
Net income, per above statement	1,549,714

	<u>3,945,604</u>
Net adjustments for changes in minority interests in subsidiary banks.....	42,568

	<u>\$23,149,174</u>
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4% stock dividend of 33,411 shares declared in 1957 from surplus from increase in equity in net assets of subsidiary banks — at \$42.30 a share, approximate market value*	\$1,413,285
Less — excess of market over par value*	745,065

Amount transferred to capital stock account equal to the \$20 par value of the shares issued	\$ 668,220
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(*In the surplus segregation shown in the note to the accompanying balance sheet \$1,413,285 was deducted from "Surplus from increase in equity in net assets of subsidiary banks" and \$745,065 was added to "Capital surplus")

Cash dividends paid — \$1.70 a share	<u>1,420,003</u>
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	<u>2,088,223</u>
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Balance at December 31, 1957 (see note to balance sheet)	<u><u>\$21,060,951</u></u>
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THE BANCOHIO BANKS

DEPOSITS, CAPITAL AND SURPLUS, UNDIVIDED PROFITS AND CONTINGENT RESERVES — COMBINED AT DECEMBER 31, 1957

	Total deposits	Capital and surplus	Undivided profits and contingent reserves	Net assets
OHIO NATIONAL BANK OF COLUMBUS	\$388,334,133	\$18,000,000	\$2,993,345	\$20,993,345
FIRST NATIONAL BANK OF CADIZ	7,166,106	450,000	50,360	500,360
FIRST NATIONAL BANK OF CHILLICOTHE	14,998,875	1,000,000	200,040	1,200,040
SECOND NATIONAL BANK OF CIRCLEVILLE	3,511,275	275,000	97,468	372,468
FIRST NATIONAL BANK OF COSHOCTON	15,379,123	900,000	265,642	1,165,642
FIRST NATIONAL BANK OF DELAWARE	12,321,870	650,000	228,143	878,143
HOCKING VALLEY NATIONAL BANK OF LANCASTER	10,840,775	550,000	163,980	713,980
FARMERS & MERCHANTS BANK OF LOGAN	8,450,437	450,000	108,908	558,908
FIRST NATIONAL BANK OF LONDON	6,384,393	375,000	139,469	514,469
FIRST NATIONAL BANK OF MARYSVILLE	6,896,374	400,000	131,742	531,742
KNOX COUNTY SAVINGS BANK MT. VERNON	8,461,207	650,000	193,884	843,884
FIRST NATIONAL BANK OF NEWARK	19,809,855	1,300,000	246,743	1,546,743
PERRY COUNTY BANK NEW LEXINGTON	3,076,692	150,000	54,954	204,954
THE NATIONAL BANK OF PORTSMOUTH	12,480,586	700,000	175,678	875,678
FIRST NATIONAL BANK OF SPRINGFIELD	32,536,409	2,200,000	226,439	2,426,439
FIRST NATIONAL BANK OF TIFFIN	7,086,319	500,000	143,150	643,150
FIRST NATIONAL BANK OF WASHINGTON C.H.	8,205,380	375,000	117,600	492,600
OHIO STATE BANK WHITEHALL	9,883,500	400,000	92,221	492,221
FIRST NATIONAL BANK OF WILMINGTON	5,380,132	375,000	100,530	475,530
WORTHINGTON SAVINGS BANK WORTHINGTON	9,645,950	500,000	84,342	584,342
CITIZENS NATIONAL BANK IN ZANESVILLE	17,922,589	1,000,000	252,787	1,252,787
COMBINED TOTALS	\$608,771,980	\$31,200,000	\$6,067,425	\$37,267,425
Less — Minority interests		580,305	218,404	798,709
BANCOHIO CORPORATION EQUITY		\$30,619,695	\$5,849,021	\$36,468,716

THE BANCOHIO BANKS

SUMMARY OF COMBINED TOTAL NET ASSETS AT DECEMBER 31, 1957

Assets:

Cash and due from banks (including \$5,753,486 due from affiliated bank)		\$144,843,890
Securities — at amortized cost:		
U.S. Treasury securities	\$226,027,291	
State and municipal bonds	67,149,321	
Other bonds and securities	12,168,451	
	<u>\$305,345,063</u>	
Less — reserve for possible future market depreciation in U.S. Treasury securities	1,517,961	
		<u>303,827,102</u>
Stock in Federal Reserve Bank		900,750
Loans, less \$4,296,365 reserves		198,591,928
Banking premises and equipment, less depreciation		6,826,948
		<u>\$654,990,618</u>

Liabilities:

Demand deposits (including \$3,218,029 deposits of affiliated banks and BancOhio Corporation)	\$445,583,420	
Time deposits	163,188,560	
		<u>\$608,771,980</u>
Interest, taxes, etc.		4,486,335
Unearned income		4,464,878
		<u>\$617,723,193</u>
Combined total net assets		<u>\$ 37,267,425</u>

SUMMARY OF CHANGES IN COMBINED TOTAL NET ASSETS DURING 1957

Combined total net assets at December 31, 1956		\$ 34,660,715
Net income for 1957:		
Net operating income — after provisions for possible future bad debts and loan losses	\$ 4,992,164	
Net gains on security sales (after taxes)	364,766	
	<u>\$ 5,356,930</u>	
Provision for possible future market depreciation in U.S. Treasury securities	1,227,470	
		<u>4,129,460</u>
Proceeds of issuance of capital stock		175,000
		<u>\$ 38,965,175</u>
Cash dividends paid (\$1,663,035 to BancOhio Corporation)		1,697,750
Combined total net assets at December 31, 1957		<u>\$ 37,267,425</u>

BANCOHIO CORPORATION

(Parent company only)

(An Ohio corporation — Incorporated in 1929)

BALANCE SHEET — DECEMBER 31, 1957

ASSETS

Deposits in banks (\$126,408 in subsidiary bank).....	\$ 149,601
Deposit with shareholders' agent (subsidiary bank) for adjustment of stock dividend fractional shares	27,000
U.S. Government and federal agency securities, at amortized cost (approximate market).....	1,464,014
Notes receivable (including \$333,931 from directors of subsidiary banks)	508,931
Investments in shares of subsidiary banks (acquired for BancOhio capital stock and cash) stated on basis of equity in net assets of the banks at December 31, 1957	36,468,716
	<u>\$38,618,262</u>

LIABILITIES

Federal income taxes and other liabilities — estimated	\$ 182,923
Capital stock — \$20.00 par value:	
Authorized — 1,000,000 shares	
Issued — 868,725.049 shares (less 4.19 shares in treasury at cost)	17,374,388
Surplus (see note below) per statement attached.....	21,060,951
	<u>\$38,618,262</u>

Notes:

Accepting December 31, 1934 as a starting point and after deducting from "Surplus from increase in equity in net assets of subsidiary banks" \$4,519,827 for stock dividends declared from such surplus in 1956 and 1957 as permitted by law, the total surplus account would be segregated as follows:

Capital surplus (net)	\$ 4,206,942
Surplus from increase in equity in net assets of subsidiary banks — since December 31, 1934	14,225,080
Earned surplus — since December 31, 1934	2,628,929
	<u>\$21,060,951</u>

Price Waterhouse & Co.

Fifty West Broad Street
Columbus 15, Ohio
January 16, 1958

To the Board of Directors of
BancOhio Corporation

We have examined the 1957 financial statements of BancOhio Corporation (parent company only). Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, but we did not examine the financial statements of the subsidiary banks. However, for all subsidiary banks (except four for which reports had not yet been completed) we reviewed the copies of the state and national bank examiners' reports presented to us covering examinations made by them during 1957.

The investments in subsidiary banks are stated on the basis of the parent company's equity in the net assets of the banks as shown by their December 31, 1957 financial statements; the net increase in the investment account, resulting from such basis, is included in surplus. The financial statements of the banks were certified by responsible bank officials to be copies of the statements filed with either the Comptroller of the Currency or the Division of Banks of the State of Ohio.

Based on our examination described above, and with the explanation in the preceding paragraph as to the basis for stating the investments in the subsidiary banks, as well as the explanation in the Note to the balance sheet regarding the application of stock dividends, it is our opinion that the accompanying balance sheet and statements of income and surplus of the parent company — BancOhio Corporation — present fairly its position at December 31, 1957 and the results of its operations for 1957, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.